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UNCLAS SECTION 01 OF 02 DJIBOUTI 000343

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SUBJECT: DJIBOUTI FREE ZONE

1. (U) Summary: Djibouti Free Zone (DFZ), inaugurated in June 2004, is a pilot project for the larger free zone planned for Doraleh Port. Djibouti Port and Free Zone Authority (DPFZA) controls the DFZ and delivers licenses to eligible firms. DPFZA gave the management of the free zone to Jebel Ali Free Zone International (JAFZI). JAFZI, an internationally renowned firm is expected to bring Djibouti Free Zone up to the standards of Jebel Ali Free Zone in Dubai. End Summary.

2. (U) While the current Port of Djibouti has a small free zone, which serves simply as a storage facility for transit goods destined for neighboring countries, DFZ has a much bigger ambition and expects to have an international status comparable to Jebel Ali Free Zone. As a consequence, the management of DFZ was entrusted to Jebel Ali Free Zone International (JAFZI), a subsidiary of Dubai International, operating also in Malaysia and Morocco. DFZ is a pilot project designed as a test before introducing the large free zone of 700 hectares planned in the Port of Doraleh. Djibouti Free Zone, operational since October 2004, covers 17 hectares designed to house warehouses, light industrial units, offices, humanitarian aid hangars and plots of lands. According to DFZ officials, about twenty companies from several countries including the UAE (Dubai), Bahrain, France, United States (Seven Seas) and Lebanon, have leased facilities in the free zone so far. The idea is to create proximity to buyers from the region to avoid long distance travel to purchase their supplies. They will also save on shipping cost. The Free Zone hopes to create jobs since firms settling at the Free Zone must initially have 30% of its workforce as nationals and increase to 70% after five years of operation. Finally, DFZ looks to play the role of a business promoter in Djibouti by attracting worldwide firms.

3. (U) The Free Zone Code, established May 2004, sets all legal requirements and specifies all regulatory provisions needed for the Free Zone. The Free Zone Code indicates that companies need to register and get a license before leasing. Companies registered in Djibouti or overseas may establish a branch in the DFZ or create a new entity as a Free Zone Establishment (FZE) or a Free Zone Company (FZCO). A FZE is made up of a single shareholder while a FZCO has a maximum of five shareholders. The business entity must submit an application form containing information on shareholders, necessary legal documents and other requirements. Once the application is approved, a Trading License, a General Trading license, an Industrial License, a National Industrial License or a Service License is provided based on the type of activities that the firm is engaged in. The company may lease a warehouse, office space or a plot of land to build upon. Open-air storage on the plot of lands is not allowed. Firms operating in DFZ may have satellites to sell in the Djibouti market after paying taxes and all other dues. They may also use local distributors to access the local market.

4. (U) Companies must pay the registration, license and lease fees. If the company chooses to form a FZE, the fees are US\$ 2,500 while the tariff for a FZCO is US\$ 4,000. There is no fee for establishing as a branch. Licenses rates vary from US\$ 1,500 to US\$ 4,000 depending on the activities of the firm. For instance, a Specialized Trading License is price-tagged at US\$ 1,500 and gives a company the right to sell, import and export up to five families of products. A General Trading License is worth US\$ 4,000 and is issued to companies involved in the selling, import and export of an unlimited range of products. Industrial Licenses, Services Licenses are also available. The warehouses and light industrial units are leased at US\$60 per square meters per year and have attached office units. Office accommodations are rented at US\$ 250 per square meters per year. The plots of lands are slated for US\$ 9 per square meters per year. Open-air storage is not allowed because the client company leasing the land has to invest and build on it. The business could either lease a site or construct its own facility after completing all the construction requirements such as detailed architecture, certificates from water and electricity utilities, and a building permit. Ten percent deposit toward the annual lease is required to reserve an office, a warehouse or a plot of land.

15. (U) As indicated on article 10 of the Free Zone, Djibouti Port and Free Zone Authority (DPFZA) is the interface between firms and the Free Zone. DPFZA officials receive and approve applications from firms planning to settle at the Free zone. Next, officials from DPFZA deliver a yearly license to eligible entities entering the free zone. DPFZA writes all the rules and regulations governing any free zone in Djibouti and enforce their full implementation. It determines as well all fees or fines related to the free zone. In addition, DPFZA is in charge of all security and safety issues in the free zone. Most importantly, DPFZA takes the role of a one-stop shop by facilitating all the administrative work to new companies setting up at the free zone. JAFZI acts as a promoter on behalf of DPFZA and manages the free zone in accordance with an agreement with DPFZA. Thus, JAFZI is authorized by DPFZA to manage the Free Zone but is held by the rules contained in the Free Zone Code.

16. (U) Djibouti Free Zone offers several advantages described in the Free Zone Code. Goods in the Free Zone are not subject to duties and taxes normally levied on imported goods (article 3). Article 19 guarantees the right to property for individuals or private entities. Article 20 indicates that there is no obligation to have a local partner, allowing the firm to be one hundred percent foreign owned. For a renewable period of fifty years, free transfer of capital, earnings or wages in any currency with no restriction is allowed (article 21). Goods of any nature or origin may be introduced in the free zone with the exception of prohibited goods (article 23). Employees as well as firms operating in the Free Zone are not subject to tax for fifty years renewable (art 32). Any dispute may be resolved by international arbitration (article 43). All payments of free zone dues should be made in US\$ or Djibouti currency.

17. (SBU) Comments: For the average Djiboutian, the DFZ remains a mystery in the same way that the Port of Doraleh is a mystery. However, it is strongly believed that the presence of US troops has greatly contributed to foreign investment in general. Even though, the French protect the country's borders, they are not known for promoting investment in Djibouti and are frequently seen as scaring away investors for whatever reasons. DFZ is attracting foreign firm because it would like to position itself for a larger free zone in Doraleh, which is expected to offer excellent business opportunities. A Commercial Lawyer working with foreign firms in the DFZ noted that the regulations in the Free Zone are unclear and incomplete. The Lawyer added that Djibouti's government has probably copied Jebel Ali requirements without setting a proper legal basis. Political pundits would agree that the government's rush to launch the DFZ was the result of its anxiousness to put the DFZ in place before the start of Presidential elections.

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